United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive

Alexandria, VA 22302-1500

DATE: July 13, 2001

SUBJECT: Commerical Labels

TO: State Child Nutrition Director
State Distributing Agency Director

Some changes in the Department of Agriculture (USDA) commodity program will result in school food authorities (SFAs) and other Child Nutrition (CN) program outlets receiving an increasing number of products with commercial labels in place of the USDA commodity label. Realizing that this change will affect the maintenance of separate commodity inventory and accounting records, we have been piloting a record keeping system that would eliminate the need for separation.

We are offering States the opportunity to use a single inventory record keeping system on a voluntary basis beginning with the current school year (SY 2001-2002). States who choose to use this single system are granted a waiver from 7 CFR Part §250 .14(e) that requires State Distributing Agencies (SDAs) to take a physical inventory of commodities during annual reviews of recipient agencies. A waiver is also granted for 7 CFR Part §250.16(a)(2) that requires SDAs to require recipient agencies to maintain accurate and complete inventory of donated foods. SFAs and other CN program outlets in States electing the single inventory system must be provided with the information contained in this memorandum and directed to retain the information on file for audit and review purposes.

These changes in record keeping will affect both the SDAs and the State Child Nutrition Agencies. Attached is guidance on the requirements for the single inventory method.

For additional information, please contact your Regional Office or Suzanne Rigby, Branch Chief, Schools and Institutions, Food Distribution Division.

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STANLEY C. GARNETT
Director
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Attachment

Inventory Record Keeping System
to
Accommodate Commercial Labels on Commodities
(July 13, 2001)

One of the USDA initiatives for the commodity program is to operate using business practices where possible. Allowing vendors that supply commodities to USDA to use commercial labels rather than USDA labels has been piloted since 1996 in the Department's household programs. The practice has demonstrated a cost savings and USDA is expanding its use into other CN programs. Some vendors already use commercial labels, additional vendors will begin commercial labeling in SY 2001-02 and by SY 2002-03, all vendors will be permitted to use commercial labels. With the loss of visual identification of commodities, it will be difficult for schools and other CN outlets to inventory commodity products separate from purchased products. States adopting the single inventory method have been granted waivers from separate commodity inventory reporting requirements.

SFAs in North Carolina and Maryland piloted the single inventory method and accounted for commodities along with purchased inventory. The pilots began January 1, 2001 on a voluntary basis. Each participating SFA and State operated with a waiver of the Part 250 requirement for a separate inventory report for commodities. A commodity became the property of the SFA when the SFA received it from the State. Both States will again operate the pilot system in SY 2001-02.

Implications and Changes with using Commercial Labels on Commodities
There are several considerations involved when implementing the new single inventory requirements.

State Level

1. There will be no "Value of Ending Commodity Inventory" figure for financial reports separate from "Value of Ending Purchased Inventory." Each State must determine if the loss of that figure will have affect on such things as State reimbursement determination, etc.
2. State DAs will no longer be required to perform inventory reconciliation when performing local school visits, nor will they need to require SFAs submit ending commodity inventories. Assessing for damaged or out-of-condition commodity at the recipient level will no longer be the State's responsibility.
3. The State must determine, on a statewide basis, the value that the SFA/CN outlet will assign to the products. This value can be the most recent commodity file value, the commodity file value for the specific delivery, full replacement cost, or a composite of the commodity file value and replacement cost. States must consider a number of factors in determining the value that will be assigned. For example, some SFAs/CN outlets receive sufficient quantities of a particular commodity and have no need to purchase an equivalent product. As a result, if the State elects to use full replacement

cost, the State may need to devote substantial efforts in assisting the SFA/CN outlet in determining the value to assign.

SFAs and Other CN Outlets

1. The value of the commodity will be realized when title passes to the SFA/CN outlet. At that point, the product becomes the property of the SFA/CN out lets and is a nonprofit food service account asset.

2. Since separate inventories are no longer required, the same inventory valuation method currently used by the SFA/CN outlet for purchased products would now apply to commodity products. For example, if the SFA uses FIFO (first in-first out) for purchased products, the SFA would use FIFO for its commodity products.

3. The SFA/CN outlet will treat and safeguard its commodities just as it now does with supplies purchased with nonprofit food service account funds. As always, good inventory management and control practices must be maintained.

4. The SFA/CN outlet may use the commodities across programs as long as all income accrues to the nonprofit food service account in the same manner income currently accrues from the use of supplies purchased with nonprofit food service account funds.

5. When a loss of a commodity occurs after title has transferred, the SFA/CN outlet is required to use the same procedures currently in place for reporting purchased product losses. If the SFA/CN outlet is not obligated to report purchased product losses to the State agency, the SFA/CN outlet will no longer be responsible for reporting commodity losses. However, the SFA/CN outlet remains responsible for ensuring that all nonprofit food service resources are safeguarded and reminded that any misuse of nonprofit food service resources is subject to criminal prosecution under section 12(g) of the National School Lunch Act.

6. Commodity entitlement credit will be available to SFAs that furnish food for Nationally declared disaster feeding. The credit cannot exceed the lessor of the actual commodities supplied or the amount of the commodity received during the past 12 months.

7. Once received by the SFA/CN outlet, the State will not be involved in arranging or accounting for transfers to other agencies. Transferring of commodities may still occur, however, arrangements will be made at a local level. Since the value of the commodity has already been realized by the SFA/CN outlet, no additional entitlement will be credited. It will be the responsibility each SFA/CN outlet to recoup the transferred product value.

8. Food safety recalls will follow the current USDA Hold and Recall procedures. As with any commercial product, can codes and establishment numbers will be used.

9. Since not required on commercial labels, the pack date will be lost. As you know, this information was the basis for “Best if Used by Dates” guidance. This guidance will no longer be made available, therefore SFAs/CN outlets should be reminded to maintain good inventory practices.